

**UNC Workgroup 0850 Minutes  
Amendments to Allocation of Unidentified Gas Expert (AUGE)  
arrangements to introduce a new Residual Upstream Contributor  
Friday 28 July 2023  
via Microsoft Teams**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Ben Mulcahy (Secretary)	(BM)	Joint Office
Andy Clasper	(AC)	Cadent
Andy Eisenberg	(AE)	Eon Next
Charlotte Gilbert	(CG)	BU-UK
David Mitchell	(DMi)	SGN
Fiona Cottam	(FC)	CDSP (Xoserve)
James Flaherty	(JF)	Ofgem
James Lomax	(JL)	Cornwall Insight
Jenny Schofield	(JS)	Northern Gas Networks
Joel Martin	(JM)	SGN
Helen Chandler	(HC)	Northern Gas Networks
Kevin Clark	(KC)	Utilita
Lauren Jauss	(LJ)	RWE
Louise Hellyer	(LH)	TotalEnergies Gas & Power
Mark Jones	(MJ)	SSE Energy Supply
Matt Marshall	(MM)	Cadent
Oorlagh Chapman	(OC)	Centrica
Paul O'Toole	(PO)	Northern Gas Networks
Phil Lucas	(PL)	National Gas Transmission
Rhys Kealley	(RK)	British Gas
Slama Akhtar	(SA)	Northern Gas Networks
Steve Mulinganie	(SM)	SEFE Energy
Tom Stuart	(TSt)	Wales & West Utilities
Tracey Saunders	(TS)	Northern Gas Networks

*This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.*

*Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: <https://www.gasgovernance.co.uk/0850/280723>*

*The Workgroup Report is due to be presented at the UNC Modification Panel by 18 July 2024*

**1. Outline of Modification**

Steve Mulinganie (SM) talked through the presentation that was initially reviewed in the Modification Panel on 20 July 2023, sharing his belief it was helpful to briefly consider the Modification on this second day of the July Distribution Workgroup due to time commitments considering the P1 incident. He suggested not yet looking in depth at the Business Rules until the August meeting.

He advised that Modifications 0831 & 0831A *Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method* deal with the current AUGE in a different way and cited recent new information made available by the Retail Energy Code (REC) which held responsibility in reference to theft across both gas and electricity and which had produced figures for retail theft which had proven dramatically different to the previous estimates produced by the AUGE. He shared that the AUGE current estimate was 6.8 GWh, with the new REC figures giving an outer estimate of 1.2 GWh.

SM continued noting that Electricity has different types of theft, such as industrial cannabis production and the like and the REC analysis concluded that in their comparison there was half the level of theft in gas, adding that further information on this analysis and detailed references were in the Modification proposal document.

SM noted that if these new REC figures were accurate, it meant that the AUGE figures had been inaccurate for many years, supporting the view of Parties under the related penal measures who have been unable to find the level of theft suggested.

SM suggested that this implied the estimated 5.6 GWh difference must relate to a hitherto undefined contributor, raising the question as to how to best address it that created a means to produce stability and crystallise the energy value for downstream UIG. To address this the Modification proposes introducing the new Residual Upstream Contributor (RUC), which SM stated he was open to discussion on, though he thought it was a more developed concept than an idea that would need discussion in a Review Group.

SM added that the Modification 0850 proposal was not an alternative to Modification 0831/0831A as it was very different in nature with the timing of implementation to be some point in the future, whereas Modification 0831/0831A could be implemented very quickly. He continued that the Modification was agnostic to the use of the independent AUGE or an alternate replacement.

## **2. Initial Discussion**

Louise Hellyer (LH) acknowledged that whilst it would be separate for this Modification from a delivery consideration, she asked if there was a view of this Modification had any implications on flat throughput share or a shaped throughput share out. She added that in that part, the driver for the Modification is a lack of confidence in the figures used previously and if theft of gas has been significantly miscalculated in the past; should the Workgroup go back to consider if the approach should still be flat or shaped, and if this would develop a better shape, or understanding, of the implied void.

SM replied that the Modification would be allocated to everyone, with the argument for shaping being in recognition of there being more gas consumed in the winter. He asked if LH was suggesting Modification 831/0831A should also be so shaped.

LH replied that she was not, adding that UIG is so shaped by its nature, and noting that If theft is a smaller number, then it is a smaller factor in the driving numbers. She reflected that theft had always been a challenged value, whilst all the other variables had generally been accepted by Parties in acknowledgement of their respective supporting logic. She asked if 'Polluters Pays' was a valid question to ask, stating that whilst it did not affect the Modification's development there was an argument that it should be kept in mind.

SM suggested it was early days in the Modification's development but could be considered as it progressed.

LH added that it would need to be simple for a customer view as UIG is so incredibly complicated, observing that this Modification would make matters much clearer, and for this she was supportive but wanted to play devil's advocate on the issue to consider it.

SM explained that the initial approach was not to be shaped, so if an example value was 1,200 kWh per annum, then this would equate to 100 kWh a month. However, as was highlighted by Fiona Cottam (FC) in the discussion on Day 1 of this Distribution Workgroup regarding the

XRN5651 Tolerance Proposals, most of a supply's annual consumption can be in the Winter months, so it is now shaped.

LH commented that in observing Non-Daily Metered (NDM) proportions in comparison to those for Daily Metered (DM) they can prove very different as the dynamics are very different, adding the view that it would probably be better to have a dynamic update that is annual. She highlighted that DESC updates them every year and that they could be open to reviewing the Residual Upstream Contributor every year as well.

SM agreed, adding that the key was getting the task wherever it is best suited, adding his apologies that he had intended the Modification to be more developed but that the recent P1 incident had taken priority. He suggested the Modification needed time to resolve matters in the long term and in need of due consideration to evolve as the Workgroup explore the subject.

SM also commented that Modification 0843 - *Establishing the Independent Shrinkage Charge and the Independent Shrinkage Expert* was also not to be considered an alternative to this as that Modification was dealing with a very particular set of considerations around the Shrinkage Expert. He advised the Workgroup that Modification 0850 was not Self Governance and had 9 months allocated for the Workgroup to consider it, adding that should it prove to require longer it was not an issue and he would be happy for it to do so.

LH agreed that she perceived Modification 0831/0831A as a short-term answer, with this Modification taking the long-term approach.

SM shared that he was proposing to look at the Business Rules as the core of the Modification in the next Workgroup meeting and was happy to get others' views then too.

Charlotte Gilbert (CG) asked if the Modification was intended to apply to IGT sites.

SM responded that he did not think the AUGE process cut across the IGTs so did not think so, but if they did, he was happy for the Modification to apply to IGT sites if so required.

CG asked if SM would be happy to present the Modification to the IGTs, which SM confirmed he was.

LH asked if SM had any feedback from the DNOs around what is essentially balancing.

SM replied that he had not really had any DNO feedback yet, though he had spoken with Richard Pomroy (RP) of Wales & West Utilities. He added that Business Rule 8 had been left to consider how it might see the financial consequences be dealt with best, such as with Shrinkage. He noted that the proposal had only just been put on the table and perhaps the amount up for discussion regarding transportation as a whole needed to be considered.

Jenny Schofield (JS) advised that from a DNO perspective, they were very much on a 'watching brief', in the same manner as they were in regard to Shrinkage, adding that if the Residual Upstream Contributor was introduced and treated as part of Shrinkage and considered passthrough, then, as long as the appropriate timings are considered, the DNOs should be net zero, but they were being understandably cautious and waiting for the detail.

SM commented that this approach seemed reasonable adding that the Modification was not looking to expose Parties to cash flow risk and that if it was possible to make this any easier to understand and create a process that does not penalise parties he was receptive to the suggestions, explaining that this was why BR 8 was left open as there was no desire to put anything in place without discussion.

JS advised that an appropriate implementation schedule will allow DNOs to build it into their pricing structure and AIP, explaining that she was a Pricing Manager herself to explain what context her commentary was coming from.

SM repeated that he was not looking to put something in place that penalised parties and, in using this rationale, had not tried to put himself in the seat of others, adding that he welcomed the opportunity to discuss the matter properly.

JS added that sudden charges that wash through as a spike for any parties, especially customers, should be avoided, and instead suggested using a transparent approach that does not have an adverse effect on any one party or another. She felt it would be good to have all parties agree on what delivers in the best interests of the customer and that is timed correctly for all.

Mark Jones (MJ) observed that with two parts theft and last resort, the Modification did not get rid of volatility, as each year could be different, perhaps 5% one year and 8% another.

SM responded that in observing UIG a known value is given, e.g. it is a crystallised terawatt figure and not a balancing factor. He shared that SEFE has customers that do not understand what UIG is and how it is recovered and that whilst he did not think the proposal removes all the volatility, it could be argued that it may incentivise other parts of the market to get their figures right and it at least softens the impact.

MJ suggested that this year to next year could be considered in the BRs.

SM replied that this was a good point as there was the flexibility to look at the subject in a broader fashion asking if the Modification should be considered within the current rules structure or have a wider remit, especially if Modification 0831/0831A is implemented, thereby introducing in effect a blank slate.

LH commented that, as part of the considerations, it would be reasonable to hope that there would be an explanation should any factor's value change. This would enable Parties to see a movement and understand why it occurred, whereas, with UIG and its unknown nature, it can currently change suddenly.

SM shared that an added issue regarding theft and its determination was that it was a Supplier-focused issue, which meant the actions were also Supplier-focused, adding a further challenge for UNC Parties.

LH asked how much notice the Modification was looking to provide within the process, for example, would a value be advised in January for October implementation.

SM proposed that this can be considered as part of the blank slate approach, suggesting that the REC be approached to get either an annual figure or a methodology to reach a figure and thereby make the timing flexible. REC could be asked if January is possible and when would they need to commence work to deliver it. If it is decided to just get a figure it may need longer, in comparison if a methodology is acquired then another entity could work on producing the figure. He shared that he felt it preferable to obtain a figure from the REC as they are so closely engaged with the market, but he had not specified in the Modification where to get the figure yet.

LH highlighted MJ's earlier commentary about potential annual 'mop-up' activities, citing the precedents that exist elsewhere, such as in electricity.

SM confirmed that anything Parties bring to the table would be considered.

LH added that she was not saying she liked the idea, just that the precedent existed.

SM advised that ultimately a crystallised figure was the intention so that Shippers are not required to correct values within a live customer contract. He reiterated that he was totally open to preferences and would consider if any suggested principle had merit, as the aim was to find what best suits all. He noted that if the Modification ended up 'Marmite' in nature then the Workgroup would need to follow the timelines given, adding that he did not think the Modification would prove so, as his impression was that all Parties recognised the situation was currently something of a mess.

JS emphasised the importance of considering the timing, suggesting that there would be value in overlaying the DNO Calendar in the discussions, explaining that January would not work for a hard fixed figure as the DNOs start pricing in October within specified deadlines.

SM acknowledged this, asking if JS could consider the framework and if JS could bring something to the Workgroup.

JS detailed that the DNO pricing calendar works with early signs at 150 days' notice, which was then followed by a 60-day threshold, with very little capability to shift anything at the end of January, working on a Regulatory year basis.

SM commented that knowing which time periods to avoid would be helpful.

JS advised that if there was a massive shift of values in January, DNOs would really struggle to get it in without significant disruption to Shippers, explaining that the DNO pricing functions meet with Shippers on a quarterly basis and had the least amount of flex available in the period of January, sharing that they worked on an 18 month ahead model.

SM asked if JS could provide insight into the DNO Calendar as a guide to when not to and when DNOs would want the Workgroup to consider the Residual Upstream Contributor to be issued.

JS confirmed she would be happy to do so.

**New Action 0701:** DNOs (JS) to provide insight into the DNO Pricing Calendar as an aid to WG consideration of when the Residual Upstream Contributor (RUC) could be issued.

Oorlagh Chapman (OC) shared that she had been asked how the RUC energy gets allocated to DNOs, in that will they be subject to UGR as reconciliation occurs or did this need to be decided as part of the solution.

SM acknowledged the question, stating that this did need to be worked through and would take some time, though the fundamental consideration today was to get the Modification out early to ensure there was not any fatal flaw.

MJ referenced the pricing for the DNOs and that maybe the RUC should not be wed to a gas year and instead perhaps a different part of the year.

SM agreed, saying that once the Workgroup got visibility of the DNO Pricing calendar, it could be asked if it matters, and fixing the RUC as a crystallised value fed into this argument.

MJ observed that customer contracts did not line up for October either.

SM concurred, stating the need to mitigate risk somewhere and that he was open to discussion of all the considerations the Modification touched, adding that there might be something obvious that was missing but was hopeful that some Party will recognise it and raise it.

FC noted that IGT sites count exactly equally as DNO sites, so her guess was that for all the IGT UNC considerations it would just point to the UNC.

SM confirmed that was the original IGT question, adding that he will take the Modification to IGT UNC anyway for their consideration, but if that was the case it makes the matter easier, and he was happy to run through the slides with the IGT UNC for information regardless.

MJ shared that he had explored this consideration when developing Modification 0831/0831A and was of the same impression, adding that it was important to refer to Modification 0843 in the Modification documentation.

## **2.1. Issues and Questions from Panel**

The Workgroup agreed to defer considering Penal questions to the next meeting.

## **2.2. Initial Representations**

No Representations had been received.

## **2.3. Terms of Reference (<https://www.gasgovernance.co.uk/0850>)**

BF asked if any Participant had any thoughts on the Terms of Reference.

SM responded that he thought that most had been addressed, adding that Distribution impact should be considered a little further into the Modification’s development when it was a bit more certain.

**3. Next Steps**

BF confirmed the next steps are:

- Consider any initial Representations and outstanding Panel questions.
- Review of the Business Rules

**4. Any Other Business**

None

**5. Diary Planning**

Further details of planned meetings are available at: [www.gasgovernance.co.uk/events-calendar/month](http://www.gasgovernance.co.uk/events-calendar/month)

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Thursday 24 August 2023	5 pm 16 August 2023	Microsoft Teams	<ul style="list-style-type: none"> <li>• Consider any Initial Representations received and Panel Questions.</li> <li>• Review Business Rules.</li> </ul>

**0850 Workgroup Action Table**

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0701	28/07/23	1	DNOs (JS) to provide insight into the DNO Pricing Calendar as an aid to WG consideration of when the Residual Upstream Contributor (RUC) could be issued.	August 2023	NGN (JS)	Pending